

PART 1902 - SUPERVISED BANK ACCOUNTS

SUBPART A - DISBURSEMENT OF LOAN, GRANT, AND OTHER FUNDS

- I. Purpose - This instruction supplements FmHA Instruction 1902-A, paragraph 1902.3, which should be marked “Supplemented by Virginia Instruction 1902-A.”
- II. Paragraph 1902.3 - Procedures to follow in funds disbursement

The Debt Collection Improvement Act (DCIA) of 1996 requires that all Federal payments be made by electronic funds transfer (EFT). An automated process has been developed for EFT/Automated Clearinghouse (ACH) loan and grant disbursements. Guidance on the automated system can be found in the *Electronic Funds Transfer Handbook*, which can be downloaded from the Intranet in the RHS Document Library.

To reduce the vulnerability to the Government created by ordering loan and/or grant closing funds electronically before debt/grant instruments have been executed and the loan and/or grant actually closed, all loans and/or grants must be consummated (debt/grant instruments executed) prior to funds being deposited to a borrower/grantee’s bank account. Effective immediately, all Community Programs loans and/or grants will be closed with no funds exchanged. This includes the execution of necessary loan and/or grant documents (Notes, Bonds, Deeds of Trust, Grant Agreements, or other debt/grant instruments), including filing of any necessary papers. After closing, you should request fund disbursement through the automated EFT/ACH system. Funds will be placed in the borrower’s account two business days from the date of the request.

In light of the no-cash closing policy, please note the following:

1. Bonds - Borrowers will now be required to issue taxable Bonds, as tax-exempt Bonds require an advance of funds at closing to meet Federal tax requirements.
2. Motor Vehicles – It is the Office of General Counsel’s opinion that as long as debt instruments are executed, the Government has legal recourse to collect the loan funds when subsequently disbursed. We then have 30 days (Virginia state law) to perfect our security interest by establishing a lien on the vehicle being purchased with our loan proceeds. As long as the time limit is met, the Government’s priority reaches back to the date of purchase as if the title had been issued the same day.